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SUBJECT: EDRC ANNUAL REVIEW OF TURKEY, JULY 16

REF: OECD DOC EDR(74)27

1. SUMMARY: SECRETARIAT SEES CONTROL OF INFLATION AS MAJOR POLICY ISSUE FOR TURKEY. IT CONSIDERS PROSPECTS FOR EFFECTIVE ACTION SOMEWHAT BRIGHTER IN IMMEDIATE FUTURE IF GOT PREPARED TAKE FIRM LINE ON PUBLIC AND PRIVATE CONSUMPTION. ON EXTERNAL SIDE, SECRETARIAT STRESSES CONTINUING NEED FOR EXPORT PROMOTION AND DEVELOPMENT OF DOMESTIC ENERGY RESOURCES AT TIME OF RAPIDLY INCREASING ENERGY IMPORT PRICES. REFDONC AIR-MAILED EMBASSY ANKARA AND AIRPOUCHED WASHINGTON, JULY 5. EMBASSY COMMENTS OR SUGGESTED QUESTIONS FOR ANNUAL REVIEW WOULD BE WELCOME. END SUMMARY.

2. PRICE POLICY: MAIN POLICY ISSUE FACING TURKEY IS URGENT NEED TO BRING CURRENT HIGH RATE OF INFLATION

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UNDER CONTROL. SECRETARIAT SEES IMPROVED OUTLOOK FOR

CONTROLLING INFLATION NOW THAT INFLATIONARY IMPULSES FROM ABROAD ARE SUBSIDING. GOT, MUST, HOWEVER, ACT TO DEFINE COHERENT POLICY TO DEAL WITH DOMESTIC DEMAND PRESSURES AND SUPPLY BOTTLENECKS. CENTRAL REQUIREMENT WILL BE TO CURB RISE IN PUBLIC EXPENDITURE BY AIMING AT BALANCED BUDGET, AND TO RESTRICT GROWTH OF PRIVATE CONSUMPTION BY RESTRUCTURING TAX SYSTEM AND CESSATION OF MEASURES TO BOOST FARM INCOMES. SECRETARIAT WOULD LIKE TO SEE WAGE GUIDELINES ESTABLISHED FOR FORTHCOMING WAGEROUND AND BELIEVES REDUCTION OF COST PRESSURES COULD BE ACHIEVED BY SOME SELECTIVE USE OF PRICE CONTROLS ON KEY COMMODITIES AND BY REDUCING INDIRECT TAXES OR USING SUBSIDIES. RECENT POLICY OF REDUCING IMPORT DUTIES AND INCREASING QUOTAS HAS CONTRIBUTED TO PRICE STABILITY BUT IS SHORT RUN RELIEF MEASURE WHOSE EFFECTIVENESS IS LIMITED BY CONDITION OF EXTERNAL BALANCE.

3. ON SUPPLY SIDE, SECRETARIAT SEES NEED FOR RE-ALLOCATION OF CREDIT FROM PUBLIC TO PRIVATE SECTOR WHERE INVESTMENTS ARE "POTENTIALLY MORE PRODUCTIVE THAN SOME OTHERS FOR WHICH FINANCING APPEARS TO BE MORE READILY AVAILABLE." SECRETARIAT ALSO URGES FURTHER EFFORTS TO CHANNEL WORKERS REMITTANCES FROM ABROAD INTO FINANCIAL SAVINGS AND PRODUCTIVE INVESTMENT IN ORDER REDUCE STIMULUS TO CONSUMPTION EXPENDITURE.

4. BALANCE OF PAYMENTS. SECRETARIAT NOTES THAT SUBSTANTIAL FOREIGN EXCHANGE EARNINGS FROM WORKER'S REMITTANCES IN RECENT YEARS HAVE MASKED CONTINUING WEAKNESS IN TURKEY'S EXPORT PERFORMANCE. STRONG FOREIGN EXCHANGE POSITION CAN BE EXPECTED TO DETERIORATE DUE TO RISING OIL IMPORT COSTS, EXPECTED 50 PERCENT INCREASE IN NON-OIL IMPORTS, AND STABILIZATION IN WORKERS' REMITTANCES. SECRETARIAT SEES NEED FOR EXPORT PROMOTION VIA CHANNELLING OF CREDIT TO EXPORT INDUSTRIES - PARTICULARLY IN PRIVATE SECTOR - AND VIA GREATER USE OF JOINT VENTURES AND PATENT AGREEMENTS. IN MEDIUM TERM TURKEY SHOULD SEEK TO REDUCE DEPENDENCE ON IMPORTED FUELS BY DEVELOPING LIMITED OFFICIAL USE

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DOMESTIC ENERGY SOURCES. SECRETARIAT BELIEVES TURKEY SHOULD CONTINUE TO RECEIVE DEVELOPMENT AID CREDITS ON CONCESSIONAL TERMS TO HELP FINANCE SPECIFIC INVESTMENT PROJECTS.

5. MAIN PROBLEM FOR LONGER TERM WILL BE PROVISION OF ADEQUATE EMPLOYMENT OPPORTUNITIES WITHIN TURKEY TO ALLEVIATE PRESENT UNDER-EMPLOYMENT AND PREPARE FOR

TIME WHEN EMIGRATION MAY BE LESS DEPENDABLE SAFETY-
VALVE. IN THIS CONNECTION, TURKEY MAY HAVE TO
CONSIDER MEASURES TO REDUCE PRESENT HIGH RATE OF GROWTH
OF POPULATION.

6. EMBASSY ANKARA REPRESENTATION AT ANNUAL REVIEW
WOULD BE WELCOME.
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